

THE KIPLINGER WASHINGTON LETTER

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THE KIPLINGER WASHINGTON EDITORS

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Dear Sir:

Washington, Sept. 7, 1973.

Tough to make business decisions these days, no doubt about it. The toughest since WW II in the eyes of many businessmen we contacted. Just finished a fresh round of checking the mood in all areas and really got an earful...boy, such widespread confusion & frustration.

How to cope with ALL the things that seem to be going wrong... that's the almost unanimous question. Examples: Shifting gov't policy on wages and prices. Inflation. Short supplies of many basic items. Soaring interest rates. Skyrocketing prices. Fuel crisis. Watergate. World monetary chaos. Etc., etc. Small wonder businessmen are edgy.

In our calls around, we picked up some ideas that may help you plan and budget for next year...things that other businesses are doing.

First, keep in mind that business is STRONG and will continue so through this year at least. Some slowing will become visible next year as we've said, but still growth. And remember that many of the problems stem from the current stage of the boom, but of course by no means all.

Then, you can assume these other things for planning purposes: Wage-price controls will stay on in some form for much of 1974. Taxes are not likely to be raised. Wages...about 7% higher. Business spending will stay high. Consumer spending will spurt in the spring of the year...record tax refunds will be pouring out.

Now...some things to do in anticipation of changes next year: Build up your cash reserve..."liquidity." One of the first steps many companies are taking in anticipation of some softening of business. More flexibility in case of emergency or sudden new business opportunity. Get late bill payers to cough up faster. Give discounts to fast payers. Watch inventories more carefully. Don't keep too much on hand...or too much money tied up. Inventory building generally isn't increasing as fast as in earlier booms. Shows careful approach the bigs are using. And do keep closer tab on sales as bellwether...plus inventory check.

Go easy on contracts. Don't promise more than you can deliver at prices you set. Don't agree to costs you may not get back in pricing. Particularly important in lines that depend on materials in short supply.

Look extra hard at your costs...booming business often adds fat, which eats up profits at other times. Best to analyze your overhead...cull inefficient equipment, outmoded facilities. Tighten up, generally.

Especially costs caused by shortages. Often can't control them. For instance, delays in delivery may make you pay more overtime. Or...maybe you can modify a product or service to cut cost. A current trend.

And sharpen the sales staff...selling may be harder next year.

About prices...you may be forced to raise them no matter what. Other companies are about to charge more to cover their rising costs.

Hundreds of companies have told gov't they plan to raise prices.
The current price control rules require giving 30 days' advance notice...
and most will be able to put up their prices over the next several weeks.

Just look at the range of products where price rises are coming:
Autos. Steel. Rubber. Chemicals. Plastics. Paper. Glass.
Appliances such as freezers, refrigerators. Metal castings. Machinery.
Industrial equipment. Gears, stampings. Electric items. Textiles.

Many small firms already have raised prices, those that are free
of controls...60 or fewer workers, exempt lines. And more hikes coming.

And food prices going up again, but probably no great new zoom,
now that beef controls are coming off. Supply on farms will rise a bit,
but not enough to dent grocery prices much. Then up again in the winter.

Canned & frozen foods will spurt...next month when big companies
are allowed to pass along rising costs, affecting all processed stuff.

So a new wave of rising prices coming as result of higher costs
that companies had to swallow under the former no-pass-through rules.

Gov't hopes this is the last big price fling but don't bet on it.

On the auto-labor negotiations, now down to the nitty-gritty.
Most of the press coverage has related to "voluntary overtime," but...

Watch the early retirement issue..."30-&-out." Other industries
and unions are most interested in it. The auto workers want retirement
at ANY age after 30 years of service. Chances for that are fairly good.

Undoubtedly more unions will be shooting for this...maybe yours.
And of course, earlier retirement will add greatly to total labor costs.

Pension plans...warning if you are an owner-employee of a firm:
A bill now in the Senate will seriously limit pension fund contributions
for employees who own at least 2% of the stock...under certain conditions.
So perhaps a smaller-than-expected pension. This isn't generally known,
and may slip by. Buzz your trade assn. on it...or look into it yourself.

Investors are rushing pell-mell into tax shelters. Key reason
is fear that any tax reform law will dry up most of the shelter schemes.

Many are going to be sorry, for they're getting involved in deals
which don't fit their needs or may be thrown out by the gov't later on.
These people are being sucked in by fast-talking promoters who tout
all kinds of deals from cattle feeding to catfish raising to cable TV.

Note the shelters which may run afoul of gov't now or later:
Limited partnerships, two-tier partnerships, the prepaying of interest
and equipment leasing. If these aren't handled just right, the shelter
may be lost and investor will be zapped with an unexpected tax bill.

Always consult a tax adviser before investing...worth the cost.

Small investors often overlook obvious shelters...the good ones.
Things that have been tested...are safe...won't get you into trouble.

Growth stocks, for instance. Companies that plow back earnings
which will eventually be reflected in capital gains when stock goes up.

Pension plans, profit sharing, other benefits. Great shelters
for employees and small businessmen. These permit tax-free accumulations,
and under certain situations there can be some tax-free current income.

Home ownership. Not always viewed as a tax shelter, but is.
One of the best. Few tax shelters as sound for people of modest means...
value appreciation plus tax breaks on real estate taxes and interest.

The last weeks of summer will be hot across the Middle West, Central Plains, Southern Plateau. But average in Northeast...and cool in Southeast, much of West Coast. Rainy in Northwest and Great Lakes. Dryish in the southern half of the country, Pacific to the Appalachians.

As for fall, gov't is trying a longer range temperature forecast. It shows that autumn will be above normal in eastern third of country... also southern Calif., western Ariz. Subnormal in most Plains States, in Central & Southern Rockies, Pacific Northwest. No judgment elsewhere.

Expanded next-day mail delivery will be tested by Postal Service. Wants to give the service throughout each urban area, not just in-city... and in some cases between nearby cities. Test run in Northeast this fall.

To do YOUR part in speeding mail, be sure to use proper mailbox. Two-star box is faster than one-star...which is faster than the no-star. And contents of airmail boxes go direct to airport...no delays downtown.

Warning on "unsafe" buildings: If you are leasing a building, you may be liable for health-&-safety omissions, even if owner goofed. Say, inadequate fire escapes. Or not posting warnings on weight limits. Law is vague on the point...court appeal may be required to clear it up.

Small business loans for plant safety: Gov't can make them... the Small Business Adm. Some businessmen have passed up the chance, fearing their applications would trigger in-plant inspections by OSHA, Occupational Safety & Health Adm...which might then demand more work than first planned. Won't happen. Get details from local SBA offices.

Warranties that don't pay off are still under probe by the FTC. It says fakery is often intentional, that sellers KNOW they can't live up to their ad promises. Fed. Trade will bring cases...most likely targets: Mobile homes, TV-radio, phonographs, home appliances. Others to follow.

Debt collectors who squeeze too hard also are being eyed by FTC. Those who scare debtors with late-night phone calls, phony legal papers, threats, etc. Agency people are trying to figure out rules to curb them.

Late payments on charge accounts...customers shouldn't be socked with a full month's interest. That's what the FTC lawyers think, anyway. Say customers who miss cutoff date should pay only part-month interest. Staff lawyers think Congress should act...if it doesn't, FTC should.

Banks are branching out into auto leasing...profitable sideline. Say they can buy cars at lower prices than individuals, and the savings more than offset cost of paperwork, etc. If you're thinking of leasing, suggest you check several potential lessors...dealers as well as banks. And read the fine print...some deals seem attractive, but can hook you.

Charter air flights...way to put zip in club membership drives. Association officials tell us they make it easier to get & keep members, who save up to \$200 a crack. Can make trips after 6 months' membership. For smaller clubs, travel agents are extra-useful...handle bookkeeping, other details, including the sharing of planes with other small groups.

Tight LP gas supplies this winter seem certain. Demand is up.. increasing faster than supply. Farm crop drying will get second priority after home heating. A slim chance that they won't cut into each other.

Multicolored currency? Rumor is that it's already printed up... blue, red, etc., to replace the green dollar...as anti-inflation measure. Nonsense. No truth in it. Fact is, it would SPUR counterfeiting.

The new autos will have lots of changes...but most won't show.
Inside...mechanical, safety, antipollution. Few body changes...
makers are down-playing the annual restylings that used to be featured.
Stronger roofs & bumpers...extra built-in reinforcements now.
Nagging seat belts...won't let the car start until hooked up.
Can be UNhooked with motor on but a light will light and a buzzer buzz.
More emission controls...gadgets under the hood to cut exhaust.

More expensive? Sure...but makers are trying hard to cut cost
AND weight (better gas mileage) by using more plastic and aluminum parts.
As for performance...better. But that is not saying very much.
The engines will run smoother...now that Detroit is getting accustomed
to clean-air gear. But mileage still will be well below the old days.

All sorts of extras...some new, others tried on a few models.
Electronic ignition...supposedly more accurate, cuts maintenance.
Disc brakes...standard on more models, options for all 4 wheels.
Antitheft devices...not just the car but contents, parts, spare.
Towing gear...whole system can be built in for hauling trailer.
And the luxury small cars...industry sniffs a new trend to them,
will watch closely to see how the "Mustang II" fares before plunging.

Business linkups in the Common Market are being made easier.
There's a new "marriage bureau" to help companies get together
through mergers, joint ventures, etc...for U.S. firms already over there.
To check it out, send details about your firm and your objectives to:
EEC Business Cooperation Ctr., 15 rue Archimede, 1040 Brussels, Belgium.

A shake-up inside CIA is being pushed by the new director, Colby.
Bum guesses are the problem...faulty "intelligence estimates"
which leave the U.S. red-faced and mumbling in the face of disasters.
Such as North Vietnam offensive in '72. Russia's Czech invasion in '68.
Trouble lies with the apparatus for preparing the official consensus,
based on all sources including our spies abroad. Too much buck-passing
among bureaucrats overeager to protect reputations and stay off limbs.
The new system will be simpler, at least Colby HOPES it will be.
Fewer layers of officials, more direct input by experts and specialists.
Will it be better? No way of knowing...unless it fails again.

Nixon is on the offensive assuming the worst is behind him
on Watergate...that public opinion is finally starting to veer his way.
Congress is a handy target and Nixon is using the TV hearings,
the growing irritation with them, as an issue for building up support.
And Congress is more conciliatory...it's feeling the heat, too.
Got lectured by the home folks during the recess...came back chastened,
sensitive to charges that it has been overdoing its attacks on Nixon.
Stung by complaints that it has been goofing off, accomplishing little.
Bitterness will persist, but that's not an entirely new thing.
Nasty, yes...but then Presidents don't always get along with Congress.
Still, laws get written...so don't think the wheels are coming to a halt.

Yours very truly,

Austin Kiplinger
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